

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 EB-07 COME-00 TRSE-00 OMB-01
AGRE-00 AID-05 CIAE-00 DODE-00 INR-07 NSAE-00 PA-01
USIA-06 PRS-01 SP-02 /052 W
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R 160935Z DEC 76
FM AMEMBASSY VIENTIANE
TO SECSTATE WASHDC 0000
INFO AMEMBASSY BANGKOK
AMEMBASSY PARIS
AMCONSUL HONG KONG
AMCONSUL UDORN
CINCPAC FOR POLAD

C O N F I D E N T I A L SECTION 1 OF 2 VIENTIANE 2917

E.O. 11652: GDS
TAGS: EALR EAGR EFIN ECON EPAP AFIN ALOW LA
SUBJECT: AGRICULTURAL TAXES IN LAOS

REF A VIENTIANE 2671, B FBIS 151502Z NOV 76

SUMMARY: THE LPDR HAS LEVIED A TAX ON AGRICULTURAL CROPS EFFECTIVE WITH THIS YEAR'S HARVEST. THE RICE TAX WILL BE LEVIED IN KIND, WHILE THAT ON OTHER CROPS WILL BE EITHER IN KIND OR IN CASH. THE GOVERNMENT WILL RELY ON THE TAX FOR MOST OF ITS 1977 BUDGETARY REVENUES. PUBLIC REACTION, SO FAR AS WE CAN TELL, IS OVERWHELMINGLY NEGATIVE. MANY PEOPLE FEAR THEY WILL BE UNABLE TO FEED THEIR FAMILIES AFTER PAYING THEIR TAXES. OTHERS ARE DISCOURAGED FROM PLANTING LARGE CROPS FOR NEXT YEAR. END SUMMARY.

1. THE LPDR ANNOUNCED AN AGRICULTURAL TAX SYSTEM NOVEMBER 13 IN PARTY NEWSPAPER "VOICE OF THE PEOPLE", ALSO CARRIED REF B. THE MINISTRY OF INFORMATION DAILY
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BULLETIN NOVEMBER 24 STRESSED THE IMPORTANCE OF THE TAX AS THE SOURCE OF THE MAJOR PART OF THE 1977 LPDR BUDGETARY REVENUES. THIS IS NOT SURPRISING SINCE 95 PERCENT OF THE LAO PEOPLE ARE FARMERS.

2 THE TAX IS LEVIED ON ALL CROPS. FARMERS PRODUCING

RICE AND OTHER STARCHY FOOD ARE EXEMPTED FROM PAYING TAXES ON THE FIRST 100 KILOGRAMS OF PADDY OR ITS EQUIVALENT PER PERSON RESIDENT IN THE FARMING FAMILY. RICE SEEDS KEPT FOR PLANTING NEXT YEAR'S CROP ARE ALSO EXEMPTED. SPECIAL EXEMPTIONS ARE ALSO GIVEN FOR HANDICAPPED VETERANS, PENSIONED CADRE, LEPROS, MONKS, AND THE AGED. FARMERS WHO RECLAIM NEW LAND, PLANT A NEW DRY SEASON CROP IN ADDITION TO THEIR REGULAR CROP, SUFFER A CROP FAILURE, OR ARE REFUGEES RETURNING TO THEIR ABANDONED VILLAGES ARE GRANTED A GRACE PERIOD FOR PAYING TAXES.

3. RICE IS TAXED IN KIND ON A GRADUATED SCALE STARTING AT EIGHT PERCENT FOR UP TO 500 KILOGRAMS, AND INCREASING FOR EACH ADDITIONAL 500 KILOGRAMS UNTIL THE SIXTH STEP WHERE A 30 PERCENT TAX IS LEVIED ON PRODUCTION IN EXCESS OF 2500 KILOGRAMS. STARCHY CROPS SUCH AS POTATOES AND CASSAVA ARE SIMILARLY TAXED.

4. FARMERS GROWING FRUIT, COTTON OR JUTE ARE TAXED EIGHT PERCENT EITHER OF THEIR PRODUCE IN KIND OR OF THE CASH THEY RECEIVE FROM SELLING THE PRODUCE. IF A STATE STORE EXISTS IN THE AREA WHERE THE CROP IS GROWN, THE FARMER MUST PAY THE TAX IN KIND. IF THERE IS NO STORE, THE TAX MUST BE PAID IN CASH AFTER THE CROP IS SOLD.

5. THE ORDER SPECIFIES THAT IN THE LOWLANDS THE AMOUNT OF RICE PRODUCED IS ESTIMATED FOR TAXATION PURPOSES ACCORDING TO THE LAND CULTIVATED BY THE

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FARMER. IN MOUNTAINOUS REGIONS TAXES ARE BASED ON THE QUANTITY OF SEEDS A FARMER PLANTS. IN OTHER REGIONS, WHICH ARE NOT IDENTIFIED, TAXES ARE CALCULATED ON THE ACTUAL QUANTITY OF RICE HARVESTED.

6. ABSENTEE LANDLORDS WILL ALSO HAVE TO PAY A 20 PERCENT TAX ON TOP OF THE REGULAR TAX ON PRODUCTION.

7. THE TAXES ARE TO BE COLLECTED ONCE A YEAR BY THE PROVINCIAL ECONOMIC DIRECTOR WORKING WITH THE LOCAL VILLAGE ADMINISTRATION. THE GOVERNMENT STARTED IMPLEMENTING THE TAX ON THIS YEAR'S HARVEST IN THE FIRST WEEK OF DECEMBER. THERE HAS BEEN CONSIDERABLE DISCUSSION OF THE NEW TAX IN THE NEWS MEDIA AND VILLAGE SEMINARS, INCLUDING SOME REPORTED IN SAVANNAKHET.

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C O N F I D E N T I A L SECTION 2 OF 2 VIENTIANE 2917

8. ALTHOUGH THE TAX PERCENTAGES APPEAR REASONABLY LOW, IN FACT THEY WILL FORCE MANY FARMERS TO YIELD TO THE GOVERNMENT FOOD NEEDED TO FEED THEIR FAMILIES. THE TAX EXEMPTS ONLY 100 KILOGRAMS OF PADDY PER PERSON ANNUALLY, BUT A CONSUMPTION STUDY MADE IN 1969 FOUND THAT THE LAO ANNUAL PER CAPITA RICE CONSUMPTION RATE IS MORE LIKE 180 KILOGRAMS OF MILLED RICE. (A UN EXPERT TOLD EMBOFF THAT THIS WOULD AMOUNT TO A LEAST 260 KILOGRAMS OF PADDY.) GOVERNMENT STORES IN VIENTIANE ALLOW MONTHLY RATIONS OF 24 KILOGRAMS OF MILLED RICE PER ADULT AND 12 PER CHILD. ONE LAO FARMER IN VIENTIANE AREA TOLD EMBOFF THAT AFTER HIS VILLAGE ADMINISTRATION TAXED THE RICE HE HARVESTED THE FIRST WEEK OF DECEMBER HE HAD ONLY ENOUGH RICE REMAINING TO FEED HIS FAMILY OF FIVE FOR FOUR MONTHS.

9. THE TAX IS LIKELY TO DISCOURAGE FARMERS WHO ARE ABLE TO PRODUCE SURPLUS CROPS FROM DOING SO. WHEN LOWLAND FARMERS HAVE AN EXCEPTIONALLY GOOD HARVEST ONE
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YEAR THEY MAY WELL FIND THAT GOVERNMENT OFFICIALS

ESTIMATE THEIR AVERAGE YIELD PER LAND AREA HIGH, THEREBY PLACING THEM IN A HIGHER TAX BRACKET FOR THE NEXT YEAR. LIKEWISE, GOOD HARVESTS IN MOUNTAINOUS OR OTHER REGIONS MAY ONLY MEAN HIGHER TAXES FOR FARMERS.

10. WHEN EMBOFF ASKED SEVERAL FARMERS WHAT THEY THOUGHT OF THE TAX, NEARLY ALL PROVIDED THE SAME RESPONSE: "WE WON'T PLANT." ONE FARMER ELABORATED, "WE PLANT SO THAT WE HAVE ENOUGH TO EAT AND WHEN WE HARVEST WE LIKE TO DANCE. WHY SHOULD WE WORK UNTIL WE ARE TOO TIRED TO DANCE AND THEN GIVE ALL OF OUR RICE TO THE GOVERNMENT SO THAT WE DON'T HAVE ENOUGH TO EAT?"

1. WHEN THE PATHET LAO INTRODUCED A AGRICULTURAL TAX IN 1965 IN ITS LIBERATED ZONE, TAX EVASION WAS REPORTEDLY ENDEMIC. ADDITIONAL AGRICULTURAL TAXES, SURTAXES AND MONETARY TAXES WERE LEVIED BY THE PL TO MAKE UP FOR "RICE WHICH WAS HIDDEN".

12. SOME LAO STUDENTS WHOSE PARENTS ARE FARMERS ALSO TOLD EMBOFF THAT THE PEOPLE REGARDED TAXES AS A PUNISHMENT RATHER THAN AS PAYMENT FOR GOVERNMENT SERVICES. EVEN THOUGH THE ROYAL LAO GOVERNMENT NOMINALLY HAD AN INCOME TAX, TAXES WERE ALMOST NEVER COLLECTED FROM THE COMMON MAN. THE LAST TIME MOST LAO FROM THE LOWLANDS REMEMBER BEING TAXED WAS BY THE FRENCH.

13. IF THE LPDR WERE SELF-SUFFICIENT IN RICE THE TAX COULD BE USED TO DISBRIBUTE RICE FROM SURPLUS TO DEFICIT AREAS. HOWEVER, AS REPORTED REF A, THERE IS EXPECTED TO BE A 25 PERCENT RICE SHORTFALL THIS YEAR BECAUSE OF DROUGHT AND INSECTS.

14. INDEED, IMPLEMENTING THE TAX IN A UNIFORM AND CONFIDENTIAL

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EFFICIENT MANNER MAY BE BEYOND THE LAO MANAGERIAL ABILITY. AT THE PRESENT TIME THE LPDR DOES NOT HAVE THE INFRASTRUCTURE TO COLLECT OR STORE RICE OR OTHER CROPS IT OBTAINS FROM TAXES ON FARMERS THROUGHOUT THE COUNTRY. A LAO LIVESTOCK EXPERT WHO STUDIED TAX SYSTEMS IN FRANCE TOLD THE DIRECTOR OF A CANADIAN AID ORGANIZATION WHO IN TURN TOLD EMBOFF, "THERE IS NO WAY MY GOVERNMENT CAN GO INTO THE MOUNTAINS TO COLLECT A RICE TAX FROM THE PEOPLE PRACTICING SLASH AND BURN FARMING. IN THE LOWLANDS WE HAVE FEW ROADS AND TRUCKS FOR TRANSPORTING RICE THAT IS COLLECTED. EVEN IF WE COULD GET IT FROM THE COUNTRYSIDE, WHERE WOULD WE STORE THE RICE? THERE ARE NO SILOS. I AM AFRAID

THE RICE WILL ROT DURING THE YEAR. THE FARMERS WHO HAVE TO PAY TAXES AND THEN RUN OUT OF RICE BEFORE THE NEXT YEAR'S HARVEST WILL NOT BE ABLE TO GET RICE FROM THE GOVERNMENT BECAUSE IT WILL HAVE SPOILED IN STORAGE."

15. EMBASSY LOCAL EMPLOYEE FAMILIAR WITH THE GOVERNMENT'S TAX ALSO TOLD EMBOFF THAT THE LANGUAGE OF THE ORDER IS AMBIGUOUS AND CONTRADICTORY. MANY ASPECTS OF THE TAX ARE LEFT TO THE DISCRETION OF LOCAL OFFICIALS WHO CAN ARBITRARILY DETERMINE AVERAGE YIELDS IN LOW-LAND REGIONS, THE QUANTITIES OF SEED PLANTED IN MOUNTAINOUS REGIONS, AND THE TOTALS OF EXEMPTED RICE FOR EACH FAMILY. EMBASSY LOCAL FELT THAT IT WOULD BE IMPOSSIBLE UNIFORMLY OR FAIRLY TO ADMINISTER THE TAX AS WRITTEN.

16. COMMENT: THE TAX IS LIKELY TO RAISE MORE HACKLES THAN REVENUES.
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